

Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 XMB-02 EB-07 AID-05 CIAE-00 COME-00

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TAGS: EFIN, CE

SUBJ: EXIM BANK CONSIDERATION OF AIRCRAFT LOAN FOR SRI LANKA

REF: A) STATE 84867; (B) STATE 82231

1. SUMMARY: ALTHOUGH WE UNAWARE GSL'S AND AIR CEYLON'S FINANCIAL AND OPERATIONAL PLAN FOR BOEING 737 WE RECOMMEND EXIM BANK NOT DENY FURTHER CONSIDERATION OF LOAN ON SINGLE BASIS OF SRI LANK'S NEAR TERM VERY SERIOUS FOREIGN EXCHANGE SHORTAGE. BASED ON RECENT INTERNATIONAL FINANCIAL ORGANIZATION REPORTS AND ON OPINIONS OF RECENTLY VISITING AMERICAN BANKERS DEALING WITH GSL AND CEYLON CENTRAL BANK, WE BELIEVE GSL IS PROBABLY GOOD FOR DEBTS IN FORESEEABLE FUTURE. END SUMMARY.

2. WE WERE UNAWARE GSL-AIR CEYLON ACTIVELY SHOPPING FOR 737 OR APPLYING FOR EXIM LOAN. WE REGRET SHORT NOTICE OF REFTELS GAVE US LITTLE TIME (MONDAY WAS GSL HOLIDAY) TO INVESTIGATE AIR CEYLON'S OPERATIONAL PLANS FOR AIRCRAFT OR GSL FINANCIAL AGENCIES' OUTLOOK ON ABILITY TO REPAY. SINCE 1971 WE HAD UNDERSTOOD GSL PERIODICALLY CONSIDERING DC 8 PURCHASE FOR ADDED SERVICES TO EUROPE. WE HAD HEARD AND READ IN PRESS THAT AIR CEYLON WAS ALSO INTERESTED IN SHORT-RANGE AIRCRAFT TO REPLACE
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OFTEN DEAD-LINED TRIDENT AND TO IMPROVE SERVICE WITH BOMBAY,

OTHER SOUTH INDIA DESTINATION AND MALDIVES. WE UNDERSTAND AIR CEYLON HAS BEEN MARGINALLY PROFITABLE LAST TWO YEARS, THAT TOURIST ARRIVALS FROM EUROPE AND TOURIST TRAVEL IN REGION HAVE INCREASED IN 1974 DESPITE FUEL CRISIS, AND THAT GSL CONTINUES TO ACTIVELY PURSUE TOURISM EXPANSION PROGRAM BEGUN IN 1971. BARRING FURTHER EXTREME INTERNATIONAL ECONOMIC DETERIORATION OF LOCAL PROBLEMS, SUCH AS REPETITION OF 1971 INSURGENCY, GSL EXPECTS TOURIST AND GENERAL AIR TRAFFIC VOLUME AND EARNINGS TO INCREASE OVER NEXT SEVERAL YEARS. FURTHER EVIDENCE OF THIS IS INCREASED INTEREST BY VARIOUS COMPETING INTERNATIONAL AIRLINES (EXCEPT AMERICAN) IN FLYING THROUGH COLOMBO.

3. CREDIT WORTHINESS: THERE IS NO QUESTION OVER SRI LANKA'S EXTREMELY ADVERSE AND DIFFICULT BALANCE OF PAYMENT SITUATION AND PROSPECTS. FEBRUARY CENTRAL BANK REPORT SHOWS CY (ALSO FY) 1973 TRADE DEFICIT OF MINUS RS. 97.6 MN. (U.S. \$14.5 MN) INCREASED CY/FY 1974 TO MINUS RS. 1,082 (U.S. \$161.2MN) (CONVERTED AT APPROXIMATELY RS. 6.70 - U.S. \$1 (OFFICIAL RATE). ACCORDING TO REPORTS FROM SEVERAL RELIABLE SOURCES GSL WAS CLEARLY ILLIQUID IN MARCH- APRIL 1974 BECAUSE AID AND TRADE RECEIPTS WERE SIMPLY OVERWHELMED BY HUGE INCREASES IN FOOD AND PETROLEUM SHORT-TERM BILLS. SINCE THEN, HOWEVER, VALUE OF EXPORT RECEIPTS HAVE INCREASED. GSL HAS SUCCEEDED IN OBTAINING SUBSTANTIALLY INCREASED SHORT-TERM AID FROM MANY DIFFERENT SOURCES AND HAS SKILLFULLY MANAGED AND ROLLED FORWARD SHORT-TERM BORROWING. TO OUR BEST KNOWLEDGE, ALL OBLIGATIONS HAVE BEEN MET. ALTHOUGH WE CANNOT PREDICT SRI LANKA'S ECONOMIC AND FINANCIAL SITUATION THROUGH LIFE OF PROPOSED 737 LOAN, WE CONSIDER THAT GSL WILL PROBABLY BE FOOD FOR ITS OFFICIAL AND COMMERCIAL DEBTS FOR FORESEEABLE FUTURE.

4. WE BELIEVE FOREGOING CONCLUSION IS BORNE OUT BY RECENT INTERNATIONAL FINANCIAL ORGANIZATION GENERAL ECONOMIC REVIEWS FOR SRI LANKA. IBRD FEBRUARY 20, 1975 REPORT CRITICIZES SHORTENING MATURITY OF DEBT STRUCTURE BUT HAS NOT ADVERSE COMMENT ON BASIC CREDIT WORTHINESS. RECENT ASIAN DEVELOPMENT BANK GENERAL ECONOMIC REPORT COMMENTS ALONG SIMILAR LINES. NEITHER SUGGEST ANY NECESSITY FOR RESCHEDULING OR STRETCHING.

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5. RECENT VISITS BY MAJOR AMERICAN BANKS INDICATE THEIR ADMITTEDLY QUALIFIED BUT CONTINUING CONFIDENCE IN FINANCIAL RELIABILITY. LARGEST INTEREST HERE IS MANUFACTURERS HANOVER TRUST. MANUFACTURER'S SENIOR VICE PRESIDENT PLUS REGIONAL REPRESENTATIVE RECENTLY VISITED AND TOLD EMBASSY THEY WERE CONTINUING THEIR EXTENSIVE CREDIT LINE TO CENTRAL AND GOVERNMENT BANKS AFTER GREATLY INCREASING EXPOSURE IN MID 1974. THEY HAVE RETURNED EXPOSURE TO MORE NORMAL LEVELS AND EXPECT A CONTINUING

FRUITFUL RELATIONSSHIP HERE. MEANWHILE, OTHER AMERICA BANKS INCLUDING FIRST NATIONAL CITY BANK, BANK OF AMERICA, GARRARD TRUST, AND UNITED CALIFORNIA BANK CONTINUE TO EXTEND LOANS AND GUARANTEE TRADE CREDIT TO SRI LANKA.

6. WE REALIZE THAT GSL EARLY 1974 REQUEST TO DEFER SMALL INITIAL PAYMENT ON EXIM'S ONLY LOAN IN SRI LANKA (INTER-CONTINENTAL HOTEL) MAY HAVE ADVERSELY AFFECTED THEIR CREDIT POSITION IN EXIM BANK'S EYES. WE BELIEVE THAT EPISODE SHOULD NOT BE REGARDED AS PRECEDENT TO PRESENT CREDIT SITUATION SINCE IT RESULTED FROM HOTEL'S UNEXPECTED LOSSES FOLLOWING FUEL CRISIS AND FROM GSL'S OVERALL EXTREME FINANCIAL DISTRESS WHICH MAY HAVE LED TO CERTAIN AMOUNT OF UNWARRANTED NERVOUSNESS.

7. RECOMMENDATION: WE ARE NOT IN A POSITION TO RECOMMEND EXIM APPROVE LOAN SINCE TIME NOT AVAILABLE TO INVESTIGATE FACTS IN SUPPORT OF SUCH RECOMMENDATION. WE DO HAVE IMPRESSION, HOWEVER, OVER LAST TWO - THREE YEARS THAT EXIM BANK HAS REJECTED CEYLONSE LOAN INQUIRES AND APPLICATIONS SOMEWHAT PEREMPORILY BASED ON COMMON IMPRESSION REPEATEDLY REINFORCED BY WESTERN PRESS STORIES THAT COUNTRY IS LITERALLY AND CHRONICALLY BANKRUPT. WE RECOMMEND LOAN BE JUSTED ON ITS OWN TECHNICAL AND COMMERCIAL MERITS, ON COUNTRY'S DEMONSTRATED DEBT PAYMENT RECORD, AND ON SRI LANKA'S CLEAR LONG TERM ECONOMIC POTENTIAL. WE WOULD APPRECIATE REPORT ON DECISION AND REASONS.

VAN HOLLEN

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